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STATE OF MONTANA

Report to the Legislature

OFFICE OF THE SECRETARY OF STATE

Financial-Compliance Audit for the  
Two Fiscal Years Ended June 30, 1984

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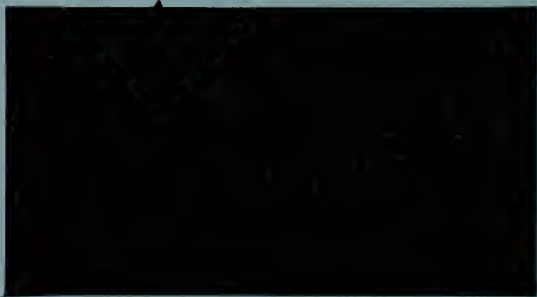
OFFICE OF THE LEGISLATIVE AUDITOR

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STATE OF MONTANA  
Report to the Legislature  
OFFICE OF THE SECRETARY OF STATE  
Financial-Compliance Audit for the  
Two Fiscal Years Ended June 30, 1984



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OFFICE OF THE SECRETARY OF STATE

ELECTED AND ADMINISTRATIVE OFFICIALS

Jim Waltermire, Secretary of State

Peggy Olson, Administrative Officer/Deputy

Larry Akey, Executive Assistant

Alan Robertson, Chief Counsel

## SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's response.

	<u>Page</u>
<u>Recommendation #1</u>	
<u>The Office of the Secretary of State:</u>	
A. Place all employees on the payroll.	3
Agency Response: Partially concur. See page 20.	
B. Comply with state and federal laws and regulations relating to income tax withholding and insurance coverage.	3
Agency Response: Partially concur. See page 20.	
<u>Recommendation #2</u>	
<u>The Office of the Secretary of State:</u>	
A. Deposit cash receipts in the state treasury in accordance with state law.	5
Agency Response: Partially concur. See page 20.	
B. Study alternatives that will reduce fluctuations in the workload and allow for the deposit of cash receipts on a timely basis.	5
Agency Response: Partially concur. See page 20.	
<u>Recommendation #3</u>	
<u>The Office of the Secretary of State correctly calculate and record transactions on a consistent basis.</u>	6
Agency Response: Concur. See page 22.	
<u>Recommendation #4</u>	
<u>The Office of the Secretary of State segregate duties to improve internal controls.</u>	8
Agency Response: Concur. See page 22.	





## INTRODUCTION

We performed a financial compliance audit of the Office of the Secretary of State for the two fiscal years ended June 30, 1984. The audit objectives were to: (1) determine if the office's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1984; (2) determine office compliance with applicable laws and regulations; and (3) review the adequacy of the management information system and make recommendations for the improvement of the management and internal controls of the office.

The report contains four recommendations to the office. These recommendations address areas where management, internal control and compliance with laws and regulations can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the office programs are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed the cost of implementing the recommendations made in the report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the Secretary of State and his staff for their cooperation and assistance during our audit.

## BACKGROUND

The Office of the Secretary of State was established by Article VI, Section 1, of the Montana Constitution and its duties are set forth in Title 2, Part 4, of the Montana Code Annotated (MCA). It is primarily a record keeping office which files, maintains, and preserves the permanent records of the state and certain public interest records of private citizens. The office also publishes the Montana Administrative Register (MAR) and the Administrative Rules of Montana (ARM).

The mission of the office is to carry out assigned duties in an orderly and timely manner and thus protect the rights, interests, and records of the state and its citizens. In support of this

mission, the office's objective is the filing, preservation, maintenance, and service of all appropriate documents, both state and private, in the manner and within the time limits set by law.

The staff consists of 29 full-time equivalent employees, in addition to the Secretary of State. General Fund appropriations were \$909,116 in fiscal year 1982-83 and \$908,411 in fiscal year 1983-84.

### STATE COMPLIANCE

We reviewed compliance with state laws and regulations that could have a material impact on the financial schedules of the office. In our opinion, except for the instances of noncompliance identified in the following sections, the office complied with state laws and regulations tested. Nothing came to our attention that caused us to believe untested items are not in accordance with applicable laws and regulations.

#### Personal Service Contracts

To meet staffing requirements, the office enters into personal service contracts for secretarial and clerical services. Eight of the sixteen contract employees did not meet the definition of an independent contractor, established in state law. Section 39-71-120, MCA states:

"An 'independent contractor' is one who renders service in the course of an occupation and:

- (1) has been and will continue to be free from control or direction over the performance of the services, both under his contract and in fact; and
- (2) is engaged in an independently established trade, occupation, profession, or business."

Under state law, an employee is a person, other than an independent contractor, who is in the service of an employer. Federal and state laws require employers to withhold income and

Social Security taxes from wages of employees. Under state law, the employer must also pay state unemployment and workers' compensation insurance.

Because the office treated certain employees as independent contractors it did not withhold or pay state and federal taxes on their salaries. Under the tax laws, the office would be liable for taxes it should have withheld, if employees did not pay their tax liability. Also, the state could be liable for workers' compensation and unemployment benefits.

By contracting employees, the office employed more full-time equivalent (FTE) employees than it reported. In addition, the related personal services costs were improperly reported as operating expenses. This was also noted in the prior audit report.

#### RECOMMENDATION #1

##### WE RECOMMEND THE OFFICE:

- A. PLACE ALL EMPLOYEES ON THE PAYROLL.
- B. COMPLY WITH STATE AND FEDERAL LAWS AND REGULATIONS RELATING TO INCOME TAX WITHHOLDING AND INSURANCE COVERAGE.

#### Timely Deposit of Cash

In the previous two audit reports, we recommended the office deposit its cash receipts in a timely manner. During the audit period the office had not taken adequate corrective action regarding the recommendation. The office restrictively endorses the checks and stores them in its vault, rather than depositing cash with the State Treasurer in a timely manner, as required by state law. The amount of cash on hand has significantly increased from prior years. At June 30, 1980 the office had \$57,000 of accumulated cash on hand. At June 30, 1982, the office had \$33,185 of cash on hand. On June 30, 1984, the office's employees counted \$96,976 of cash on hand. The cash consisted mainly of checks in small denominations received as prepayment for filing documents. Some of the money was received by the office as early as April 1984, but was not deposited until after June 1984.

Office personnel indicated the backlog of filings and related deposits was due to cyclical fluctuations in the workload. In addition, office personnel indicated the moneys were not immediately deposited because there is a high rejection rate in the reports filed and the cost of issuing a state warrant associated with re-funding the fee would exceed the amount of the filing fee. The office could request approval from the Department of Administration to establish a contingent revolving fund. This would allow the office to efficiently issue refund checks from this account to the filer. Office personnel also indicated the filer would assume the office accepted the filing if the filer received a cancelled check. The office should establish a policy stating that the deposit of the checks does not constitute acceptance. The office could include this policy in its application filing procedures and instructions.

Section 17-6-105(6), MCA, requires all moneys received to be deposited with the State Treasurer each day the accumulated amount of coin and currency exceeds \$100 or total collections exceed \$500. All moneys collected must be deposited at least weekly. When deposited, the moneys are invested by the state Board of Investments to earn interest income for the state's General Fund. We estimated approximately \$2,500 of interest was lost for the three months the funds were not deposited. Since receipts are not immediately deposited with the State Treasurer, they are susceptible to loss or theft. The office should deposit all moneys with the State Treasurer in accordance with state law.

Since office personnel indicated the backlog of filings and related deposits was due to cyclical fluctuations in the workload, the office should study the effectiveness of its system. Items that should be studied include:

1. Whether the office can avoid significant fluctuations in the workload by staggering the required filing date for certain corporate reports.
2. Whether the cost to process a refund document approaches the amount refunded. This should be reviewed to determine whether the office should establish a minimum

refund amount, increase its fees for filing documents, or make fees non-refundable.

3. Whether it's necessary for corporate reports to be filed each year. The cost of requiring annual reports may outweigh the benefit of maintaining these files. The office should consider requiring less frequent reports.
4. Whether it is necessary and in the best interest of the state and its citizens to maintain files on all the documents currently required by the office. Some documents may be unnecessary and should be deleted or destroyed.

#### RECOMMENDATION #2

##### WE RECOMMEND THE OFFICE:

- A. DEPOSIT CASH RECEIPTS IN THE STATE TREASURY IN ACCORDANCE WITH STATE LAW.
- B. STUDY ALTERNATIVES THAT WILL REDUCE FLUCTUATIONS IN THE WORKLOAD AND ALLOW FOR THE DEPOSIT OF CASH RECEIPTS ON A TIMELY BASIS.

#### SPECIAL REVENUE FUND TRANSFERS

The office did not properly calculate or consistently transfer General Fund moneys to the Special Revenue Fund in accordance with state accounting policy. State accounting policy requires that transactions be recorded on the state's accounting records on a consistent basis. It also requires that amounts recorded on the state's financial records accurately reflect each agency's financial activity.

The office is required by law to provide copies of the Administrative Rules of Montana (ARM) and the Montana Administrative Register (MAR) free of charge to certain persons and agencies. The office is also required by law to transfer the cost of publishing the free subscriptions from the General Fund to the Special Revenue Fund.

The office did not transfer any funds from the General Fund to the Special Revenue Fund in fiscal year 1982-83 to pay for the cost of publishing the free subscriptions. The office had appropriation authority for the transfer in its Administrative Codes

appropriation and should have transferred approximately \$37,000 into the Special Revenue Fund. However, the office did not have Special Revenue Fund Appropriation authority to spend this transferred money. If the office had transferred this money, it would have required a budget amendment in order to spend. The office and the legislature did not consider the statutory requirement for the transfer when the appropriations were made. The office was prohibited from seeking a budget amendment for the administrative codes program due to restrictive language in its fiscal year 1982-83 appropriation. The law states that the only budget amendment allowed would be for additional printing expenses. An official of the office said, in order to comply with the appropriation law and be able to provide the administrative code subscriptions, the office did not make the transfer from the General Fund to the Special Revenue Fund in fiscal year 1982-83.

In fiscal year 1983-84 the office transferred \$70,220 to the Special Revenue Fund as a current year transfer. During this period the office should have transferred approximately \$44,000.

The office miscalculated the amount required to be transferred to the Special Revenue Fund. The amount transferred by the office covered 18 months, 6 of which were outside the audit period. The office should have transferred an amount covering 12 months. Also, the office did not consider cost changes in calculating the amount transferred.

The office did not record these transfers on a consistent basis, therefore fiscal year 1982-83 transfers in are understated in the state's accounting records by \$37,000. Also, fiscal year 1983-84 transfers in are overstated by \$26,000. Fund balance in the Special Revenue Fund was understated by approximately \$11,000 at June 30, 1984.

#### RECOMMENDATION #3

WE RECOMMEND THE OFFICE CORRECTLY CALCULATE AND RECORD TRANSACTIONS ON A CONSISTENT BASIS.

## INTERNAL CONTROL

We have examined the financial schedules of the Office of the Secretary of State for the two fiscal years ended June 30, 1984. We issued our opinion dated November 16, 1984, on these schedules. As part of our examination, we made a study and evaluation of the office's system of control. Our study evaluated the system as required by generally accepted government auditing standards for financial and compliance audits. We classified the controls in the following categories: (1) revenue; (2) payroll; (3) expenditures/liabilities; (4) cash; and (5) plant, property, and equipment. Our study included the control categories listed above. Through our study, we determined the nature, timing, and extent of our auditing procedures. We applied alternative audit tests to payroll, cash, and plant property and equipment because the audit could be performed more efficiently by expanding substantive audit work. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the Office of the Secretary of State is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance: (1) that assets are safeguarded against loss from unauthorized use or disposition; (2) that transactions are executed in accordance with management's authorization; and (3) that transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the

system of controls used by the Office of the Secretary of State. However, our study disclosed conditions that could result in financial schedule errors that would be difficult to detect. These conditions relate to the timely deposit of cash discussed on page 3, and the segregation of duties discussed in the following section.

The preceding three paragraphs are intended solely for the use of management and the legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

#### Segregation of Duties

One employee in the office is responsible for depositing collections, purchasing, processing payroll, and preparing all accounting documents. The office should segregate the authorizing, preparing, and approving duties within each function in order to strengthen internal controls. This could be accomplished through reassigning job duties among existing personnel. In addition, the training of other personnel would expand their skills and ensure the job is completed in the absence of a key employee.

#### RECOMMENDATION #4

WE RECOMMEND THE OFFICE SEGREGATE DUTIES TO IMPROVE INTERNAL CONTROLS.

#### PRIOR AUDIT RECOMMENDATIONS

Our last financial compliance audit of the Office of the Secretary of State for the two fiscal years ended June 30, 1982 contained seven recommendations which are still applicable to the office. The office concurred with four and partially concurred with three of the recommendations. They have implemented or partially implemented five of the recommendations.

The two recommendations which the office did not implement concern personal services contracts (page 2) and timely deposits of cash (page 3).



AUDITOR'S REPORT AND SCHEDULES OF AGENCY FINANCIAL ACTIVITY



## Office of the Legislative Auditor

STATE CAPITOL  
HELENA, MONTANA 59620  
406/444-3122

## DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLET  
FINANCIAL/COMPLIANCE AUDITS

SCOTT A. SEACAT  
PERFORMANCE AUDITS

## STAFF LEGAL COUNSEL

JOHN W. NORTHEY



ROBERT R. RINGWOOD  
LEGISLATIVE AUDITOR

The Legislative Audit Committee  
of the Montana State Legislature:

We have examined the Schedule of Changes in Fund Balance; the Schedule of Revenue and Transfers In - Estimate and Actual; the Schedule of Program Expenditures and Transfers Out by Fund - Budget and Actual; and the Schedule of Program Expenditures and Transfers Out by Object for each of the fiscal years ending June 30, 1983 and 1984. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the office's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

The office did not record transfers on a consistent basis. The office did not transfer the cost of free subscriptions to the ARM and MAR from the General Fund to the Special Revenue Fund as required by state accounting policy during fiscal year 1982-83. If the office had made the required transfer, the amount of Operating Transfers Out and Net Support From the General Fund in the General Fund, and Operating Transfers In and Fund Balance in

the Special Revenue Fund would have increased by \$37,000. In fiscal year 1983-84, the office transferred more than the cost of free subscriptions to the ARM and the MAR from the General Fund to the Special Revenue Fund. As a result, Operating Transfers Out and Net Support from the General Fund in the General Fund is overstated, and Operating Transfers In and Fund Balance in the Special Revenue Fund is overstated by \$26,000. Fund balance in the Special Revenue Fund is understated by \$11,000.

In our opinion, because of the effects of the matters discussed in paragraph three, the following schedules do not present fairly, in conformity with the basis of accounting described in Note 1, the results of operations and changes in fund balance of such funds of the Office of the Secretary of State for the fiscal years ended June 30.

<u>Schedule</u>	<u>Fund</u>	<u>Fiscal Year</u>
Schedule of Changes in Fund Balance	Special Revenue	1984
Schedule of Revenue and Transfers In - Estimate and Actual	Special Revenue	1984 and 1983
Schedule of Program Expenditures and Transfers Out by Object		1983

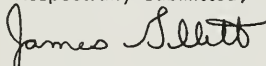
In our opinion, except for the effects of the matter discussed in paragraph three, the following schedules present fairly the results of operations and changes in fund balance of such funds of the Office of the Secretary of State for the fiscal years ending June 30 in conformity with the basis of accounting described in Note 1, which has been applied on a consistent basis:

<u>Schedule</u>	<u>Fund</u>	<u>Fiscal Year</u>
Schedule of Changes in Fund Balance	General	1984
Schedule of Program Expenditures and Transfers Out by Fund	Special Revenue	1984
- Budget and Actual	General	1984 and 1983
Schedule of Program Expenditures and Transfers Out by Object		1984

In our opinion the following schedules present fairly the results of operations and changes in fund balance of such funds of the Office of the Secretary for the fiscal years ending June 30 in conformity with the basis of accounting described in Note 1, which has been applied on a consistent basis:

<u>Schedule</u>	<u>Fund</u>	<u>Fiscal Year</u>
Schedule of Revenue and Transfers In - Estimate and Actual	General	1984 and 1983
Schedule of Program Expenditures and Transfers Out by Fund	Special Revenue	1983
- Budget and Actual		

Respectfully submitted,



James H. Gillett, CPA  
Deputy Legislative Auditor

November 16, 1984

Approved:



Robert R. Ringwood  
Legislative Auditor



SECRETARY OF STATE  
SCHEDULE OF CHANGES IN FUND BALANCE  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1984

	General Fund	Special Revenue Fund
FUND BALANCE - JULY 1, 1982	\$ -0-	\$ 27,023
ADDITIONS:		
Fiscal Year 1983		
Revenue and Transfers In	\$ 743,320	\$ 78,682
Support From State of Montana	143,927	
Fiscal Year 1984		
Revenue and Transfers In	711,851	200,581 <sup>1</sup>
Support From State of Montana	189,905	
Total Additions	<u>1,789,003</u>	<u>279,263</u>
REDUCTIONS:		
Fiscal Year 1983		
Expenditures and Transfers Out	885,639	89,757
Prior Year Expenditure Adjustments	1,608	
Fiscal Year 1984		
Expenditures and Transfers Out	901,609 <sup>2</sup>	173,086
Prior Year Expenditure Adjustments	147	(54)
Total Reductions	<u>1,789,003</u>	<u>262,789</u>
FUND BALANCE - JUNE 30, 1984	\$ -0-	\$ 43,497

<sup>1</sup> This represents \$130,361 of Revenue and \$70,220 of Budgeted Transfers In.

<sup>2</sup> This represents \$831,389 of Expenditures and \$70,220 of Budgeted Transfers Out.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 18.

SECRETARY OF STATE  
SCHEDULE OF REVENUE AND TRANSFERS IN  
ESTIMATE AND ACTUAL  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1984

	<u>Licenses &amp; Permits</u>	<u>Service Fees</u>	<u>Miscel- laneous</u>	<u>Sale of Documents, Merchandise, and Property</u>	<u>Income  Collec- tions &amp; Transfers</u>	<u>Total Revenue</u>
<u>FISCAL YEAR 1983-84</u>						
General Fund						
Estimated Revenue	\$602,500	\$ 87,750	\$ 1,000	\$ -0-	\$ -0-	\$691,250
Actual Revenue	<u>591,997</u>	<u>118,671</u>	<u>1,183</u>			<u>711,851</u>
Collections Over						
(Under) Estimate	<u>\$ (10,503)</u>	<u>\$ 30,921</u>	<u>\$ 183</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 20,601</u>
Special Revenue Fund						
Estimated Revenue	\$ -0-	\$ -0-	\$ -0-	\$144,644	\$70,908	\$215,552
Actual Revenue				<u>130,361</u>	<u>70,220</u> <sup>1</sup>	<u>200,581</u>
Collections Over						
(Under) Estimate	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (14,283)</u>	<u>\$ (688)</u>	<u>\$ (14,971)</u>
<u>FISCAL YEAR 1982-83</u>						
General Fund						
Estimated Revenue	\$528,500	\$114,500	\$ 1,500	\$ 200		\$644,700
Actual Revenue	<u>616,927</u>	<u>125,200</u>	<u>1,193</u>			<u>743,320</u>
Collections Over						
(Under) Estimate	<u>\$ 88,427</u>	<u>\$ 10,700</u>	<u>\$ (307)</u>	<u>\$ (200)</u>		<u>\$ 98,620</u>
Special Revenue Fund						
Estimated Revenue	\$ -0-	\$ -0-	\$ -0-	\$85,000		\$ 85,000
Actual Revenue				<u>78,682</u>		<u>78,682</u>
Collections Over						
(Under) Estimate	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (6,318)</u>		<u>\$ (6,318)</u>

<sup>1</sup> This represents a transfer from the General Fund to the Special Revenue Fund to reimburse the Administrative Rules program for free copies of ARMS sent to designated recipients per MCA 2-4-313(1).

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 18.





SECRETARY OF STATE  
SCHEDULE OF REVENUE AND TRANSFERS IN  
ESTIMATE AND ACTUAL  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1984

	Licenses & Permits	Service Fees	Miscel- laneous	Sale of Documents, Merchandise, and Property	Income Collec- tions & Transfers	Total Revenue
<u>FISCAL YEAR 1983-84</u>						
General Fund						
Estimated Revenue	\$602,500	\$ 87,750	\$ 1,000	\$ -0-	\$ -0-	\$691,250
Actual Revenue	<u>591,997</u>	<u>118,671</u>	<u>1,183</u>			<u>711,851</u>
Collections Over						
(Under) Estimate	<u>\$ (10,503)</u>	<u>\$ 30,921</u>	<u>\$ 183</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 20,601</u>
Special Revenue Fund						
Estimated Revenue	\$ -0-	\$ -0-	\$ -0-	\$144,644	\$70,908	\$215,552
Actual Revenue				<u>130,361</u>	<u>70,220</u> <sup>1</sup>	<u>200,581</u>
Collections Over						
(Under) Estimate	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (14,283)</u>	<u>\$ (688)</u>	<u>\$ (14,971)</u>
<u>FISCAL YEAR 1982-83</u>						
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Estimated Revenue	\$528,500	\$114,500	\$ 1,500	\$ 200		\$644,700
Actual Revenue	<u>616,927</u>	<u>125,200</u>	<u>1,193</u>			<u>743,320</u>
Collections Over						
(Under) Estimate	<u>\$ 88,427</u>	<u>\$ 10,700</u>	<u>\$ (307)</u>	<u>\$ (200)</u>		<u>\$ 98,620</u>
Special Revenue Fund						
Estimated Revenue	\$ -0-	\$ -0-	\$ -0-	\$85,000		\$ 85,000
Actual Revenue				<u>78,682</u>		<u>78,682</u>
Collections Over						
(Under) Estimate	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (6,318)</u>		<u>\$ (6,318)</u>

<sup>1</sup> This represents a transfer from the General Fund to the Special Revenue Fund to reimburse the Administrative Rules program for free copies of ARMS sent to designated recipients per MCA 2-4-313(1).

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 18.

SECRETARY OF STATE  
 SCHEDULE OF PROGRAM EXPENDITURES AND TRANSFERS OUT BY FUND  
 BUDGET AND ACTUAL  
 FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1984

	FISCAL YEAR 1983-84			FISCAL YEAR 1982-83		
	Records Management	Administrative Rules	Total	Records Management	Administrative Rules	Total
GENERAL FUND						
Budget	\$837,503	\$ 70,908	\$908,411	\$816,555	\$ 92,561	\$909,116
Actual						
Personal Services	479,632		479,632	498,772	55,057	553,829
Operating Expenses	337,293		337,293	288,149	36,591	324,740
Equipment	14,464		14,464	7,070		7,070
Transfers		70,220 <sup>1</sup>	70,220			
Total Actual	<u>831,389</u>	<u>70,220</u>	<u>901,609</u>	<u>793,991</u>	<u>91,648</u>	<u>885,639</u>
Unspent Appropriation Authority	<u>\$ 6,114</u>	<u>\$ 688</u>	<u>\$ 6,802</u>	<u>\$ 22,564</u>	<u>\$ 913</u>	<u>\$ 23,477</u>
 SPECIAL REVENUE FUND						
Budget	\$ 11,000	\$203,331	\$214,331		\$ 90,561	\$ 90,561
Actual						
Personal Services		90,546	90,546		56,115	56,115
Operating Expenses	8,642	71,560	80,202		33,642	33,642
Equipment		2,338	2,338			
Total Actual	<u>8,642</u>	<u>164,444</u>	<u>173,086</u>		<u>89,757</u>	<u>89,757</u>
Unspent Appropriation Authority	<u>\$ 2,358</u>	<u>\$ 38,887</u>	<u>\$ 41,245</u>		<u>\$ 804</u>	<u>\$ 804</u>
 PROGRAM TOTAL						
Budget	\$848,503	\$274,239	\$1,122,742	\$816,555	\$183,122	\$999,677
Actual						
Personal Services	479,632	90,546	570,178	498,772	111,172	609,944
Operating Expenses	345,935	71,560	417,495	288,149	70,233	358,382
Equipment	14,464	2,338	16,802	7,070		7,070
Transfers		70,220	70,220			
Total Actual	<u>840,031</u>	<u>234,664</u>	<u>1,074,695</u>	<u>793,991</u>	<u>181,405</u>	<u>975,396</u>
Unspent Appropriation Authority	<u>\$ 8,472</u>	<u>\$ 39,575</u>	<u>\$ 48,047</u>	<u>\$ 22,564</u>	<u>\$ 1,717</u>	<u>\$ 24,281</u>

<sup>1</sup> This represents a transfer from the General Fund to the Special Revenue Fund to reimburse the Administrative Rules program for free copies of ARMS sent to designated recipients per MCA 2-4-313(1).

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 18.

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SECRETARY OF STATE  
SCHEDULE OF PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1984

	FISCAL YEAR 1983-1984			FISCAL YEAR 1982-83		
	Records Management	Administrative Rules	Total	Records Management	Administrative Rules	Total
PERSONAL SERVICES						
Salaries	\$398,728	\$ 75,527	\$ 474,255	\$417,355	\$ 93,452	\$510,807
Employee Benefits	80,904	15,019	95,923	81,417	17,720	99,137
Total Personal Services	<u>479,632</u>	<u>90,546</u>	<u>570,178</u>	<u>498,772</u>	<u>111,172</u>	<u>609,944</u>
OPERATING EXPENSES						
Contracted Services	208,876	51,090	259,966	164,945	55,643	220,588
Supplies & Materials	47,351	2,188	49,539	37,190	2,942	40,132
Communications	42,494	9,551	52,045	48,014	8,542	56,556
Travel	10,697	861	11,558	10,031		10,031
Rent	19,868	4,930	24,798	22,072	2,714	24,786
Repair & Maintenance	12,469	2,361	14,830	3,638	392	4,030
Other Expenses	4,180	579	4,759	2,259		2,259
Total Operating Expenses	<u>345,935</u>	<u>71,560</u>	<u>417,495</u>	<u>288,149</u>	<u>70,233</u>	<u>358,382</u>
EQUIPMENT						
Equipment	3,864	468	4,332	2,925		2,925
Lease Purchase	10,600	1,870	12,470	4,145		4,145
Total Equipment	<u>14,464</u>	<u>2,338</u>	<u>16,802</u>	<u>7,070</u>		<u>7,070</u>
TRANSFERS						
Transfers		70,220 <sup>1</sup>	70,220 <sup>1</sup>			
Total Transfers	<u>-0-</u>	<u>70,220</u>	<u>70,220</u>			
Total Program Expenditures	<u>\$840,031</u>	<u>\$234,664</u>	<u>\$1,074,695</u>	<u>\$793,991</u>	<u>\$181,405</u>	<u>\$975,396</u>

<sup>1</sup>This represents a transfer from the General Fund to the Special Revenue Fund to reimburse the Administrative Rules program for free copies of ARMS sent to designated recipients per MCA 2-4-313(1).

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 18.

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OFFICE OF THE SECRETARY OF STATE  
NOTES TO THE FINANCIAL SCHEDULES  
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1984

1. BASIS OF ACCOUNTING

The Office of the Secretary of State utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy:

- 1) System development inter-agency or intra-agency service agreements and other professional service contracts may be accrued at the end of the fiscal year in which created.
- 2) Equipment expenditures may be charged against the fiscal year in which budgeted.
- 3) Obligations for employees' vested annual leave and sick leave are recorded as expenditures when paid.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Funds

The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. The funds presented and their relationship to the state treasury fund structure are as follows:

General Fund - To account for all financial resources except those required to be accounted for in another fund. This fund corresponds with the general fund within the state treasury fund structure.

Special Revenue Fund - To account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

### 3. VACATION AND SICK LEAVE

Employees at the office accumulate both vacation and sick leave. Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Office of the Secretary of State. Expenditures for termination pay currently are absorbed in the annual operational costs of the office. At June 30, 1984 the office has a liability of \$35,316 for vacation leave and \$12,117 for sick leave.

### 4. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero.

### 5. FIXED ASSETS

The office records assets on the state's Property and Accountability Management System. Fixed asset balances as of June 30, 1984 and the changes since June 30, 1982 follow:

<u>General</u> <u>Fixed Assets</u>	<u>June 30, 1982</u> <u>Balance</u>	<u>Net Additions</u> <u>(Deletions)</u>	<u>June 30, 1984</u> <u>Balance</u>
Equipment	<u>\$69,771</u>	<u>\$20,913</u>	<u>\$90,684</u>

### 6. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The office's contribution to this plan is shown below:

	<u>Fiscal Year</u> <u>1982-83</u>	<u>Fiscal Year</u> <u>1983-84</u>
PERS	<u>\$30,459</u>	<u>\$27,819</u>

## 7. REDISTRICTING MAP ACTIVITY

The office printed and sold legislative district maps in fiscal year 1984. The funds used to pay the costs associated with this project were expended (per House Bill 447) from the Special Revenue Fund in the amount of \$8,642. Until this time, the Special Revenue Fund was established and used to account only for the administrative rules program. Revenue earned from the sale of these maps was \$3,545 in fiscal year 1984. This expenditure activity reported in the Special Revenue Fund is combined with administrative rules program activity. The revenue received is reported in the Special Revenue Fund under Sale of Documents, Merchandise and Property. The revenue received from the sale of these maps for the 10-year period will exceed the cost. At the end of the 10th year, because this financial activity is not part of the administrative rules program, the excess funds will be reverted to the General Fund.



AGENCY REPLY



SECRETARY OF STATE  
STATE OF MONTANA

Jim Waltermire  
Secretary of State

State Capitol  
Helena, Montana 59620

January 15, 1985

RECEIVED

JAN 15 1985


MONTANA LEGISLATIVE AUDITOR

Mr. Robert Ringwood  
Legislative Auditor  
Capitol Station  
Helena, MT 59620

Dear Mr. Ringwood:

You will find my response to the recently completed audit report of the Secretary of State's office for the two years ending June 30, 1984, attached to this letter.

Sincerely,

  
JIM WALTERMIRE  
Secretary of State

JW:lr  
Enclosure

RESPONSE OF THE SECRETARY OF STATE TO THE LEGISLATIVE AUDIT  
REPORT FOR FY 1983 AND 1984

RECOMMENDATION #1

WE RECOMMEND THE OFFICE:

- A. PLACE ALL EMPLOYEES ON THE PAYROLL.
- B. COMPLY WITH STATE AND FEDERAL LAWS AND REGULATIONS  
RELATING TO INCOME TAX WITHHOLDING AND INSURANCE  
COVERAGE.

AGENCY RESPONSE

Partially concur. The office used contracted services for processing annual corporate reports during the audit period; we have since placed these employees on the payroll. However, the use of contracted clerical services for conversion from existing manual systems to the Corporate Automated System was required by existing budget authority.

RECOMMENDATION #2

WE RECOMMEND THE OFFICE:

- A. DEPOSIT CASH RECEIPTS IN THE STATE TREASURY IN ACCORDANCE  
WITH STATE LAW.
- B. STUDY ALTERNATIVES THAT WILL REDUCE FLUCTUATIONS IN THE  
WORKLOAD AND ALLOW FOR THE DEPOSIT OF CASH RECEIPTS ON A  
TIMELY BASIS.



## AGENCY RESPONSE

Partially concur. As indicated in response to a similar recommendation in prior audit reports, the office recognizes the statutory requirement for prompt deposit of cash. Practical considerations preclude implementation of this recommendation at the present time, however.

The cash on hand at fiscal year end consisted predominantly of \$5.00 and \$10.00 checks attached to annual reports. Statute requires filing these reports with the office by April 15. During the first three weeks of April, 1984, we received 6926 annual reports. The office staff must check each report for sufficiency prior to accepting it for filing. Although improved office procedure has substantially reduced the rejection rate, a significant number of reports are still rejected. The cost of processing refunds for rejected reports outweighs the investment opportunities foregone by current procedure.

Implementation of the Corporate Automated System (CAS), should allow the office to comply with this recommendation. If implementation of CAS does not rectify this situation, we will study the alternatives suggested by the Legislative Auditor.

**RECOMMENDATION #3**

WE RECOMMEND THE OFFICE CORRECTLY CALCULATE AND RECORD  
TRANSACTIONS ON A CONSISTENT BASIS.

AGENCY RESPONSE

Concur.

**RECOMMENDATION #4**

WE RECOMMEND THE OFFICE SEGREGATE DUTIES TO IMPROVE INTERNAL  
CONTROLS.

AGENCY RESPONSE

Concur. We will segregate these duties to the extent  
practical within existing staffing levels.



